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SIPDIS

SENSITIVE

AF/S FOR B. NEULING
NSC FOR SENIOR AFRICA DIRECTOR C. COURVILLE
STATE PASS TO USAID FOR M. COPSON AND E. LOKEN
TREASURY FOR J. RALYEA AND B. CUSHMAN
USDOC FOR ROBERT TELCHIN

E.O. 12958: N/A

TAGS: [EAGR](#) [ECON](#) [EFIN](#) [EMIN](#) [PGOV](#)

SUBJECT: THE 2006 BUDGET - FAULTY PREMISES UNDERMINE THE OPTIMISM

Summary

1. (SBU) Zimbabwe's 2006 budget, announced December 1 by Finance Minister Murerwa, is premised on a number of unrealistic projections, primarily a strong rebound in the agricultural and mining sectors. It forecasts 2-3.5 percent GDP growth in 2006, a fall in inflation to 80 percent by end-2006, and a decline in the budget deficit to 4.6 percent. Without fundamental and comprehensive reform, the figures are instead likely to be continued GDP contraction, inflation approaching four digits, and a spiraling deficit. End Summary.

Rosy Prognosis for 2006 Based on Faulty Premises

2. (SBU) Finance Minister Murerwa presented the 2006 Budget to Parliament on December 1. He conceded that the Zimbabwean economy would contract by 3.5 percent in 2005 (the IMF forecasts 7.2 percent contraction), and that the agricultural, mining and manufacturing sectors would decline by 12.8 percent, 5.7 percent, and 3 percent respectively this year. Nevertheless, he said he was basing the GOZ's 2006 budget on an imminent economic turnaround. For 2006, Murerwa forecast:

- 14.8 percent growth in the agricultural sector,
- 27 percent growth in the mining sector, and
- manufacturing and tourism recoveries.

which would lead to:

- 2-3.5 percent GDP growth,
- a 4.6 percent budget deficit, and
- end-year inflation of 80 percent.

3. (SBU) Murerwa said there would be a strong rebound in the agricultural sector as a result of normal rains, more arable land under irrigation and the timely supply of inputs. However, a variety of sources have criticized the government for not adequately preparing for the agricultural season, including the Parliamentary Portfolio Committee in early November (reftel) and the Commercial Farmers' Union (CFU), both of which concluded that it was now too late to get needed inputs to farmers. In that regard, economic analyst John Robertson told us on December 7 that there would be further serious food shortages in 2006. At the December 10-11 ZANU-PF Party Congress, President Mugabe reportedly joined the chorus, asking rhetorically why the annual agricultural season seemed to catch the government by surprise every year.

4. (SBU) The forecast growth in the mining sector also appears unlikely to be realized. At a post-budget meeting hosted by the Zimbabwe National Chamber of Commerce (ZNCC) on December 2, David Matanga of the Chamber of Mines said the sector could not achieve the growth rate envisioned in the budget as long as it was saddled with the requirement to relinquish large percentages of its forex earnings to the RBZ at unfavorable exchange rates. He added that shortages of inputs, high inflation, and electricity outages were among additional obstacles to increased production. However, the biggest obstacle, according to Matanga, was that GOZ meddling in the sector had undermined investor confidence.

5. (SBU) Murerwa's budget statement blithely forecast that Zimbabwe's track record of peace and tranquility⁸ would benefit the tourism sector. Third quarter figures from the Zimbabwe Tourism Authority, however, belie the optimism, as tourist arrivals fell 27 percent, particularly in the high-spending overseas market, compared to the same period last year. In addition, the modest recovery in manufacturing that followed the recent devaluation is not likely to be sustainable as long as essential raw material imports remain

in short supply due to fuel and forex shortages.

16. (SBU) On the expenditure side, the 2006 budget increased the wage bill, which is 40 percent of total expenditure, by 200 percent. With annualized inflation over 500 percent and rising (septel), and wage levels not increased since January 2005, the deep erosion of civil servant purchasing power remains unabated.

Comment - 2006 Likely to See More Economic Decline

17. (SBU) What Murerwa,s unrealistic budget presentation failed to address in earnest were the market reforms needed to reverse the country,s economic collapse. The government,s continued heavy and inefficient hand in Zimbabwe,s core forex-earning sectors, especially agriculture and mining, the bleak outlook for recovery in tourism, the immense burden of go-it-alone debt financing, and the inexorable pressure on wages from the civil service, foreshadow yet another year of macroeconomic instability and GDP contraction.

18. (SBU) Without fundamental and comprehensive reform and facing a shrinking revenue base, we expect to see Minister Murerwa back before Parliament in 2006 with a supplementary budget request that will again drive inflation toward four digits, push the budget deficit wider, and keep the economy reeling on the brink of collapse.

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